

**AGENDA ITEM 3b  
REAL ESTATE FINDINGS HIGHLIGHTS  
AS OF JUNE 30, 2010**

<b>Highlights of 2009-10 Real Estate Audit Issues</b>	
<b>FEE AND EXPENSE ISSUES:</b>	
<ul style="list-style-type: none"> <li>• <u>Centerline Urban Capital I - Managing Member Level:</u> Legal fees in the amount of \$10,102, incurred for the benefit of the Manager, were charged as a portfolio expense. Status: <b>COMPLETE.</b> The Real Estate Unit states that the managing member has agreed to and refunded \$9,051 of \$10,102 in questioned legal fees.</li> </ul>	
<ul style="list-style-type: none"> <li>• <u>Centerline Urban Capital I -Managing Member Level:</u> The formula applied in computing the Asset Management Fee did not recognize the additional day in the 2008 Leap Year. As a result, the Asset Management Fee was overcharged by \$5,956 for the year. Status: <b>COMPLETE.</b> The Real Estate Unit stated that the managing member has refunded \$5,956 to the portfolio.</li> </ul>	
<ul style="list-style-type: none"> <li>• <u>First Washington Realty, Inc. (Brea Marketplace) - Property Manager Level:</u> A leasing commission in the amount of \$15,239 was charged in error. Status: <b>COMPLETE.</b> The Real Estate Unit states that the property manager has refunded \$15,239.</li> </ul>	
<ul style="list-style-type: none"> <li>• <u>First Washington Realty, Inc. - Investment Manager Level:</u> The LLC Agreement provides that "reasonable cost of travel" may be charged for meetings called by CalPERS. The external auditors noted that six airline tickets were purchase at first class rates totaling \$12,998. "The reasonable cost of travel" should be at coach rates which were estimated at a total of \$3,600. Status: <b>IN PROGRESS.</b> The Real Estate Unit is working with First Washington Realty, Inc. on this issue.</li> </ul>	
<ul style="list-style-type: none"> <li>• <u>Premier Pacific Vineyards, L.P. - General Partner Level:</u> During a review of a sampled payroll period, the external auditors noted that payroll costs for employees who were specifically excluded by the Agreements were allocated both to Pacific Vineyard Partners, LLC and Meriwether Farms, LLC. The unallowable payroll costs for the Controller and Portfolio Manager are estimated annual costs at \$152,050 and \$190,100, respectively. Status: <b>IN PROGRESS.</b> The Real Estate Unit is working with Premier Pacific Vineyards on this issue.</li> </ul>	
<ul style="list-style-type: none"> <li>• <u>Premier Pacific Vineyards, L.P. - General Partner Level:</u> The external auditors noted charges for consulting services, administrative office costs, office equipment costs, and other administrative costs totaling \$360,827 that were unallowable per the Agreement. Status: <b>IN PROGRESS.</b> The Real Estate Unit is working with Premier Pacific Vineyards on this issue.</li> </ul>	
<ul style="list-style-type: none"> <li>• <u>Urban America, L.P. II - General Partner Level:</u> In 2006 the Partnership deducted \$20,000 in Supervisory Fees paid to two Advisory Board members. Status: <b>COMPLETE.</b> The Real Estate Unit has confirmed a refund of \$20,000 to the portfolio.</li> </ul>	
<b>INTERNAL CONTROL AND ACCOUNTING ISSUES:</b>	
<ul style="list-style-type: none"> <li>• <u>Centerline Urban Capital I (City Gate Apartments) - Property Manager Level:</u> The project maintains a transient guest suite. The on-site assistant manager controls both the collection of cash received from the guests and the calendar registering the guests. We noted that the calendar and cash received are not reconciled by any other employee. Additionally, the bookkeeper who reconciles the accounts</li> </ul>	

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payable also mails the checks once they are signed.

Status: **COMPLETE**. The Real Estate Unit states the managing member implemented the recommended procedures immediately.

- First Washington Realty, Inc. (Brea Marketplace) - Property Manager Level: The tenant receivables were overstated by \$29,000.

Status: **IN PROGRESS**. The Real Estate Unit states the manager is processing the write-down of \$29,000 in receivables.

- First Washington Realty, Inc. (Ygnacio Plaza) - Property Manager Level: The projected cost of improvements to the project's breezeway, \$11,000, was accrued and capitalized at year end even though actual construction had not yet commenced.

Status: **COMPLETE**. The Real Estate Unit has informed First Washington Realty, Inc. to adhere to Generally Accepted Accounting Principles at all times.

- Western Multifamily (Tuscan Lakes III) - Property Manager Level: Management's policy is to turn over all uncollected tenant receivables to a collection agency once they have become 90 days overdue. We noted that a receivable in the amount of \$4,000 was 170 days overdue and had not yet been turned over to a collection agency.

Status: **COMPLETE**. The Real Estate Unit states the property manager has instituted a program to ensure security deposits and receivables are turned over to a collection agency within 20 days of a tenant vacating the property.

**CONTRACT COMPLIANCE ISSUES:**

- First Washington Realty, Inc. (Willston II) - Property Manager Level: The external auditors reviewed four third party contract files and noted the following deficiencies: (1) None of the contracts contained a non-discrimination clause (2) Two of the files did not have a current insurance certificate (3) Two of the four contracts could not be located in-house and (4) Two of the contracts did not include a termination date or insurance limits required.

Status: **IN PROGRESS**. The Real Estate Unit states the manager has or will institute the following measures: (1) Future contracts above \$25,000 will include a non-discrimination clause (2) All vendor files have been updated with current insurance certificates (3) Contracts will be maintained on file in hard and soft copies and (4) Contract language is being reviewed by legal to see if it should be modified to address termination dates and insurance limits.

- Next Block Medical I, L.P. - General Partner Level: The external auditors noted that tax returns should be distributed to the Partners within 120 days after the end of the fiscal year based on the Partnership Agreement at Article XII, Section 12.4(c) "Reports." The tax returns for the period ended December 31, 2006, and the years ended December 31, 2007 and 2008 were not submitted on time.

Status: **COMPLETE**. The general partner will submit the required reports on a timely basis in the future.

- Premier Pacific Vineyards, L.P. - General Partner Level: During a review of sampled farm managers, the external auditors noted that the file for one of the farm managers did not contain evidence of compliance with the CalPERS' Responsible Contractor policy or Cal/OSHA Agricultural Training requirements. Compliance with both standards is required by the services agreement. Subsequent to fieldwork, the external auditors received email confirmation that the documents have been received

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<p>and filed by management.</p> <p>Status: <b>COMPLETE.</b> Premier Pacific Vineyards provided the external auditors with appropriate documents.</p>
<ul style="list-style-type: none"> <li> <p><u>UrbanAmerica, L.P. II - General Partner Level:</u> The external auditors noted certain inconsistencies between actual occupancy rates for the property and the occupancy rates stated in the quarterly reports prepared by the Partnership for the Miami Gardens, Florida property.</p> <p>Status: <b>COMPLETE.</b> Urban America informed the Real Estate Unit that the partnership will review accuracy of the reports prior to distribution.</p> </li> </ul>
<p><b>LEASING AND TENANT ISSUES:</b></p>
<ul style="list-style-type: none"> <li> <p><u>Centerline Urban Capital I (City Gate Apartments) - Property Manager Level:</u> The project contains storage units that it rents to tenants. The external auditors inspected four units and found one occupied on which rent was not being received and was not listed on the rent roll. The external auditors were informed that management did not maintain a complete list of storage spaces.</p> <p>Status: <b>COMPLETE.</b> The Real Estate Unit states a full storage audit has been completed and an occupancy schedule is being maintained.</p> </li> </ul>
<ul style="list-style-type: none"> <li> <p><u>First Washington Realty, Inc. (Pleasant Hill) - Property Manager Level:</u> The Leasing Agreement provides that the second half of the leasing commission is due when tenant is obligated to begin paying base rent. The external auditors noted that the second half of a commission due on a lease, \$44,586, was paid two months in advance.</p> <p>Status: <b>IN PROGRESS.</b> The Real Estate Unit states First Washington Realty, Inc. will research this finding further with the property manager.</p> </li> </ul>
<ul style="list-style-type: none"> <li> <p><u>First Washington Realty, Inc. (Concord Plaza) - Property Manager Level:</u> The external auditors reviewed four tenant lease files and noted that none of the files contained current insurance certificates.</p> <p>Status: <b>IN PROGRESS.</b> The Real Estate Unit states a system will be developed to track and maintain insurance certificates.</p> </li> </ul>
<ul style="list-style-type: none"> <li> <p><u>First Washington Realty, Inc. (Concord Plaza) - Property Manager Level:</u> A leasing commission was charged on a renewing tenant at the higher percentage rate allowed for a new tenant. The amount overcharged was \$3,639.</p> <p>Status: <b>COMPLETE.</b> The Real Estate Unit states \$3,639 was refunded and the responsibility of calculating the fee has transferred to First Washington's asset management group.</p> </li> </ul>